

## The European Banking Union and Western Balkan Countries – Kosovo

PhD (C.) Shkëlqesa Çitaku

University of Pristina “Hasan Pristina”, Kosovo

### Abstract

All Countries in Western Balkans aspire membership in the European Union, but they face different challenges in terms of lack of the appropriate factors as vital requirements for catching up with the rest of the European Union. Financial stability, diverse economies, tax regimes, macroeconomic stability, are common efforts throughout the region.

The long-term challenge remains the risks posed by financial instability, although the governments in the region remain committed to reforms. Meanwhile, banks in the Western Balkan Countries continue with a moderate level of non-performing loans rather than lending to the real economy, as another risk from financial sector fragility. However, the importance of the international strong support has helped to prevent bank failures, especially in late 2008 when several countries were faced with significant deposit outflows of their banking systems. The Banking Union as an integrated financial framework is based on the three basic pillars: Single Supervisory Mechanism, Single Resolution Mechanism and Common Deposit Guarantee Scheme. The European Banking Union transferred important powers from the Member States to the EU and had significant implications for the internal market. Since in the EU, there are two groups of countries (participants in the Banking Union and non-participants EU Member States) there is a need for strong harmonization and well-functioning of-European Supervisory Authorities.

From the perspective of Western Balkan Countries, the positive development on cross-border coordination was the signing in October 2015 of a memorandum of understanding between the European Banking Authority (EBA) and the supervisory authorities of the banking systems in five of the six Western Balkans countries (excluding Kosovo). This non-binding agreement established a framework of cooperation and information exchange to strengthen banking regulation and supervision of banks operating in the EU and in the region. The Western Balkans countries have committed to provide the EBA with regular updates on developments in their banking systems and to bring their own regulatory and supervisory standards and institutional arrangements in line with those in the EU.

**Keywords:** Banking Union, financial stabilization, Western Balkan Countries, Kosovo.

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